



**TREASURER AND  
MINISTER FOR FINANCE AND  
ADMINISTRATION**



**NO. 74**

**EMBARGO**

**PRELIMINARY 1997-98 BUDGET OUTCOME**

Preliminary estimates for 1997-98 indicate that the underlying budget was in surplus by \$1.2 billion. This represents a \$6.1 billion improvement over the 1996-97 outcome. It is also an improvement of around \$2.3 billion on the revised estimates for 1997-98 included in the 1998-99 Budget.

The stronger than expected outcome reflects both higher revenues and lower outlays.

Revenue collections were \$1.5 billion above that expected at the time of the 1998-99 Budget, mainly reflecting higher than expected taxation revenue.

- The higher taxation collections were driven by stronger company (\$600m) and other individuals (\$460m) tax receipts.
- The higher than expected revenue collections reflect improved business conditions and taxable incomes over the relevant tax year. PAYE tax collections were only moderately higher than expected, indicating that fiscal drag was not a factor in the better than expected outcome.
- This outcome is indicative of the fundamental underlying strength of the Australian economy.

Underlying outlays were around \$0.8 billion lower than anticipated at the time of the 1998-99 Budget.

- There were underspends in several programme areas including transport and communications, social security and welfare, general services, education and health.

The Government has delivered this surplus — the first underlying surplus since 1990-91 — a year ahead of schedule. In doing so, it has met in full the commitment it made soon after coming to office, to return the budget to underlying surplus within the life of the current Parliament.

When the Coalition came to office in 1996 the underlying budget deficit was \$10.3 billion. Deficits of this magnitude, uncorrected, would have posed a serious threat to Australia's longer term growth prospects. The potential ramifications posed by such a threat have only recently been made clear by the developments in Asia.

Now, almost 2½ years later, the \$10.3 billion deficit left by Labor has been fully reversed and turned into a \$1.2 billion surplus. This has been achieved by a strong, decisive and sustained commitment to expenditure control.

In the 1996-97 Budget, the Government announced a medium term fiscal strategy of achieving underlying budget balance, on average, over the course of the economic cycle, and laid out a plan for the return to surplus by 1998-99. Consistent with these objectives, we implemented a significant programme of fiscal consolidation in the 1996-97 Budget and built on it further in the 1997-98 Budget.

As a result of the Government's Budget management, underlying surpluses are now in prospect over the next few years.

Indeed, this better than expected outcome for 1997-98 can be expected to have flow through benefits to 1998-99. While it is too early to fully quantify the implications for the 1998-99 and outyear estimates, the stronger than expected revenue collections can certainly be expected to move them in the right direction.

The budget estimates will be comprehensively updated in the usual way at the time of the 1998-99 Mid-Year Economic and Fiscal Outlook, accounting for the 1997-98 outcome and the latest economic and other developments.

The 1997-98 Final Budget Outcome document will, as required under the *Charter of Budget Honesty Act 1998*, be published by the end of September 1998.

Dramatic reductions in Commonwealth general government net debt are also now in prospect. As a result of the budget surpluses, the Government's objective of halving the net debt ratio by the turn of the century is on track.

The return to underlying surplus has been achieved while still providing additional assistance to those in need, and without increasing the tax burden on Australians. The hard work has been done on the outlays side of the Budget.

The improved targeting of outlays – both through reassessments of appropriate core activities for the Government and improvements in efficiency - has allowed significant reductions in outlays. As a proportion of GDP underlying outlays are expected to fall from around 27 per cent of GDP in 1995-96 to below 23 per cent by 2001-02 — their lowest levels in quarter of a century.

On the revenue side, the Government has taken action to protect the revenue base and address anomalies. Consistent with the commitment made in the last election, no new taxes have been introduced or tax rates increased. Revenues are expected to remain relatively stable over the forward estimates period, little different from the 1995-96 levels of around 25 per cent of GDP.

This has not meant, however, that the Government has ignored the revenue side of the Budget. Because the structure of the tax system has failed to keep pace with changes in the economy, with consequent pressures on existing tax bases, continual repair and maintenance have been required.

These ongoing problems, as well as serious concerns relating to the overall complexity, distortions and unfairness of the existing system, highlight the need for tax reform. Repair and maintenance of the present taxation system can only go so far.

And it is in this context that achievement of budget surpluses is of crucial importance to the country's future. It provides the sound basis we need to go forward.

The Budget surplus puts Australia in a strong position to pursue tax reform. Tax reform is not about raising more revenue. The Budget surplus means the Government does not require additional revenue, indeed, it is able to concentrate on raising tax in more efficient ways which offer the opportunity for tax relief.

Tax reform can be directed at removing inequities, inefficiencies, complexities and disincentives to work, save and invest.

CANBERRA  
10 August 1998

Archived